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ILLINOIS POWER COMPANY

**SUPPLEMENTAL STATEMENT
ACCOMPANYING LETTER OF TRANSMITTAL DATED JUNE 5, 2000**

ILLINOIS COMMERCE COMMISSION
CHIEF CLERK'S OFFICE

With this filing, Illinois Power Company ("Illinois Power" or the "Company") proposes to establish a new market-based alternative tariff, Rider MVI – Market Value Index. Rider MVI would replace the "neutral fact finder ("NFF") process currently in use. A summary of the tariffs incorporating the alternative market value calculation methodology is provided below.

Rider MVI

Section 16-112(a) of the Public Utilities Act (the "Act") allows utilities to propose tariffs that provide for a "determination of the market value for electric power and energy as a function of an exchange traded or other market traded index, options or futures contract or contracts applicable to the market in which the utility sells, and the customers in its service area buy, electric power and energy..." Rider MVI will determine the market value for electric power and energy in the Illinois Power service area based on forward pricing information applicable to the region.

Rider MVI will provide for the determination of monthly On Peak and Off Peak market prices from electronic exchanges and published reports that are accessible to market participants. On Peak market values will be based upon up-to-date Into Cinergy Hub forward prices on specified electronic exchanges and published reports listed in an appendix to Rider MVI. Market values will be developed by obtaining daily market data via a specified hierarchy on an as available basis. Such On Peak market values will be adjusted by an appropriate basis adjustment to reflect the regional market in which Illinois Power sells, and its customers buy, electric power and energy. Off Peak market values utilize the most recent calendar year's off-peak prices for Lower MAIN from reports that are published daily. The data used in this approach are more relevant since they are more current and, therefore, a better basis for establishing market prices than the data used by the NFF. Further, such data more closely reflect the market in which Illinois Power sells, and its customers buy, electric power and energy. (Note: There is currently no explicit Into IP market for which published data is available.)

Specifically, On Peak market prices would be determined using forward contracts' market data for electric power and energy delivered in the Into Cinergy Hub from Altrade™ and Bloomberg PowerMatch – two real-time, Internet-based, on-line, electronic trading systems that post Into Cinergy Hub forward contracts' market data. In addition, On Peak market prices would also reflect appropriate market data obtained from "Power Markets Week" – a published survey of market prices by region and contract period. In summary, this methodology relies on actual transaction and bid/offer prices for power delivered into the region.

The determination of market values for Off Peak periods is handled differently because there is no applicable off-peak, regularly traded, forward market data. Rather, historical prices for the daily eight-hour off-peak periods from Monday through Friday for various reliability regions can be obtained from McGraw Hill DRI or Platt's. Illinois Power will use the published daily weighted average from this report. In the absence of such data, the Company will calculate the midpoint between the minimum and maximum trades for each day with reported prices for the respective month, and a simple average of the midpoints for those days will be used for the Off Peak market price.

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Illinois Power also proposes to calculate an off-peak value for the 48-hour weekend period. The weekend period value shall be the product of the weekday off-peak period and an appropriate seasonal correlation factor. The seasonal correlation factor shall be the simple average of all PJM West Hub prices, by season, for the 12:00 A.M. to 6:00 A.M. and 10:00 P.M. to 12:00 A.M. time periods Monday through Friday, divided by the simple average of all PJM West Hub prices, by season, for the 12:00 A.M. Saturday through 12:00 A.M. Monday time period. The summer season shall be defined as June through September. All other months shall be the non-summer season.

Illinois Power proposes to calculate market values on a monthly basis to reflect up-to-date forward looking prices and reduce the risk of price volatility. Better price signals should enhance the development of a competitive market in electric power and energy in Illinois. Therefore, market data for the last five (5) consecutive Business Days of the second prior month and the first five (5) consecutive Business Days of the prior month will be used to determine the market values for each one-year period that commences the following month. On or before the fifteenth day of each month, Illinois Power will file Information Sheets with the Commission and post on the Company's web site the market values for energy for the On Peak and Off Peak periods for each relevant calendar month beginning with the next calendar month following such fifteenth day. If the fifteenth day of the month falls on a Saturday, Sunday or holiday, such market values will be made available on the next following Business Day. The newly established market values would be reflected in new power purchase option ("PPO") prices and customer transition charges ("TC") for Annual Periods going forward. On an as-needed basis, Illinois Power will make the above described process available for review by the ICC Staff upon request.

Rider TC

Illinois Power's Rider TC, Transition Charge for Non-Residential Customers, is an existing tariff that provides for the calculation and imposition of transition charges to be billed to delivery services customers under Service Classification 110 and Direct Purchase Customers. Several revisions to Rider TC are required to appropriately reflect the implementation of Rider MVI. For example, the description of MVI in Section 4(a) has been substantially revised to reflect that Rider MVI is determining market values as opposed to the report of the NFF. Language has been added to Section 5, Determination of Customer's TC Group, to indicate that monthly information sheets to Appendix 1, TC Groups, (formerly Appendix 4) will be filed with the Commission. In effect this change means that the "shell" of existing Appendix 4 will remain, but the actual values associated with the appendix will be updated monthly. In addition, a new Section 6,

Determination of Transition Charges for Annual Periods, has been added. Such new language indicates, among other things, when and how Illinois Power will calculate Transition Charges and the effective period for the same. Section 6 also provides that information sheets to Appendix 2, Market Values, (formerly Appendix 5) will be filed monthly with the Commission. Lastly, Section 7(d) has been modified.

Further, in response to an ICC Staff request to help improve the understandability of Rider TC, Illinois Power proposes to cancel Appendix 1, Appendix 2 and Appendix 3. Illinois Power will retain the detailed information contained in Appendix 1 (Coincident Peak Determination), Appendix 2 (Allocation of Usage) and Appendix 3 (Rates), however, as applicable work papers to the tariff. References to these appendices have been revised accordingly. As a result of all of the above changes, the definitions of Annual Period, Business Type, Coincident Peak Demand and Tariff Rate have been modified.

Implementation

Illinois Power has in effect a delivery services tariff (Service Classification 110) for eligible non-residential customers, a transition charge tariff (Rider TC), and a power purchase option tariff (Rider PPO). These tariffs were approved in ICC Docket No. 99-0120/99-0134 (Consolidated). Illinois Power's existing transition charge tariff and power purchase option tariff incorporate the market values determined through the NFF procedure. The calculation of market values is set forth in Rider TC and incorporated by reference into Rider PPO. As many market participants have observed, the NFF price does not adequately reflect the seasonality of actual market values. Several market participants have expressed concern that the market values derived through the NFF process are significantly less than actual prices observed in the market during the summer period and too high at other times.

Implementation of Rider MVI will promote efficient competition and provide consumers with additional opportunities to save. Illinois Power's proposed alternative market value calculation methodology is preferable to the NFF methodology. This is because the market-based methodology: (1) reflects the market in which Illinois Power sells, and its customers buy, electric power and energy; (2) provides more visible and current price signals for all participants; and (3) enables both customers and suppliers to better forecast future market values. The use of the market index methodology is anticipated to reduce annual customer transition charges and increase Rider PPO power prices, as compared to the NFF methodology, better aligning these charges with actual market data.

Because these tariffs are a change from past NFF-based tariffs and because the methodology is new, Illinois Power recognizes that the Commission may not approve without suspension the tariffs attached hereto. Therefore, simultaneously with this filing, Illinois Power is also filing this day a Verified Motion for Alternative Approval. In such Motion, Illinois Power requests that the Commission permit the Company to implement a market based alternative to the NFF values on a schedule that allows these tariffs to become effective on or before January 1, 2001 (with the exact implementation date to be set

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consistent with an orderly transition to a market-based alternative). This will allow customers to remain with the charges that reflect the NFF methodology for the remainder of 2000. Further, implementation of a market-based alternative tariff on January 1, 2001 will give all parties adequate notice of the applicable methodology to be used for establishing market values.

Illinois Power is committed to working with the Commission and interested parties to make any necessary changes to ensure that the alternative market value calculation methodology will function as intended, and to improve this methodology if needed in the future.

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